



LEGISLATIVE FINANCE COMMITTEE

58TH Montana Legislature

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

HOUSE MEMBERS

GARY FORRESTER, CHAIRMAN
JOHN BRUEGGEMAN, SECRETARY
ROSALIE BUZZAS
DAVE KASTEN
DAVE LEWIS
MONICA LINDEEN

SENATE MEMBERS

KEITH BALES, VICE CHAIRMAN
RICK LAIBLE
EMILY STONINGTON
JON TESTER
JOE TROPILA
TOM ZOOK

MINUTES

June 20, 2003

Room 102, State Capitol
Helena, Montana

ROLL CALL

Rep. Dave Lewis
Rep. John Brueggeman
Rep. Rosalie Buzzas
Rep. Gary Forrester
Rep. Dave Kasten
Rep. Monica Lindeen
Sen. Keith Bales
Sen. Rick Laible, Excused
Sen. Emily Stonington
Sen. Jon Tester
Sen. Joe Tropila
Sen. Tom Zook
Clayton Schenck, Legislative Fiscal Analyst
Cindy Campbell, Committee Secretary

Call to Order (Tape 1A-010)

The 185th meeting of the Legislative Finance Committee (LFC) was called to order at 9:05 a.m. by Representative Dave Lewis, Chair, on Friday, June 20, 2003. The meeting was held in Hearing Room 102 of the State Capitol, Helena, Montana.

Members of the Revenue and Transportation Committee (RATC) joined the LFC for the presentation of the 2005 Biennium Legislative Fiscal Report, the 2003 Biennium General Fund Status Report and the Report on Federal Jobs and Growth Tax Relief Reconciliation Act. The members of the RATC in attendance were: Senators Gregory Barkus, Jerry Black, Vicki

Cocchiarella, Jon Ellingson, Robert Story, Jr., and Ken Toole; Representatives Joe Balyeat, Eileen Carney, Ron Devlin, and Karl Waitsches.

1. 2005 Biennium Legislative Fiscal Report (Tape 1A-000)

Clayton Schenck, Director of the Legislative Fiscal Division (LFD), presented the 2005 Biennium Legislative Fiscal Report, which reviews the fiscal actions taken by the Fifty-eighth Legislature. He highlighted the fiscal issues detailed in the Overview Volume and answered questions from the LFC members.

2. 2003 Biennium General Fund Status Report (Tape 1A-500)

Terry Johnson, Principal Fiscal Analyst, presented the 2003 Biennium General Fund Status Report. (Exhibit 1) His report included: 1) figures for the total general fund revenue, fiscal 2002 vs. fiscal 2003 to date; 2) information on significant economic trends, both for Montana and the nation; 3) personal property tax rate trigger; and 4) a summary of the general fund status. Mr. Johnson addressed questions and concerns from the LFC members.

Chuck Swygood, Director of the Office of Budget and Program Planning (OBPP), responded on behalf of the executive. He told the committee that the executive generally agreed with Mr. Johnson's report and they will continue to monitor the revenues closely. Mr. Swysgood responded to questions from the committee.

3. Report on Federal Jobs and Growth Tax Relief Reconciliation (Tape 2A-212)

State Fiscal Relief Funds

Taryn Purdy, Principal Fiscal Analyst, presented a report on the state fiscal relief from the Federal Jobs and Growth Relief Reconciliation Act (the Act). (Exhibit 2) Ms. Purdy explained the purpose of this report, which is to provide information on the basics of the issue, but not to make recommendations for action by the LFC. Ms. Purdy explained the difference between what action the legislature could take when they are in session and the action the Governor can take when they are not in session.

She informed the LFC that Montana will receive an estimated \$73.0 million additional federal funds for the purpose of: 1) flexible distribution and 2) FMAP increase. Ms. Purdy explained that the federal act requires the funds be used for the following purposes: 1) to provide essential government services; or 2) to cover the costs to the state of complying with any unfunded federal mandates. The funds can only be used for expenditures “permitted under the most recently approved budget for the state”, meaning they cannot be used to fund new programs not already funded. The mechanism for receiving these funds requires the Governor provide a letter of certification to the federal Department of the Treasury that states the funds will be used in accordance with the federal law, which is outlined in Attachment A of this report. The state is eligible to receive the federal fiscal 2003 payment as soon as the federal government receives the signed certification letter. Ms. Purdy responded to questions from committee members.

Lois Steinbeck, Senior Fiscal Analyst, presented the information on the FMAP increase. Her report included information on the state funds saved, the appropriation authority mechanism, constraints on use of freed up general fund, and the current fiscal status of the Department of Public Health and Human Services (DPHHS). She then responded to questions from committee members.

Revenue Impacts of Federal Tax Law Changes

Cathy Duncan, Associate Fiscal Analyst, presented a report on the revenue impacts of the federal tax law changes under the Act. (Exhibit 3) She reported that in addition to the state fiscal relief funds (as discussed previously), the bill includes numerous federal tax law changes. Since Montana’s tax law is based on the federal tax laws, the Act will have significant impacts on state individual and corporation license tax collections, beginning in fiscal 2004. These impacts will be both positive and negative. Mrs. Duncan responded to questions from LFC members.

Director Swysgood provided the executive response. He reported that the certification letter was signed by the Governor and sent to the federal Department of the Treasury on June 17, 2003. He told the committee they expect the funds to arrive today and the money will be deposited into a federal special revenue account, temporarily, until a decision is reached regarding appropriation

of the funds. Director Swysgood stated they were proceeding with extreme caution in discussions on proposed uses of the money, but OBPP has not yet provided recommendations to the Governor. He said they will monitor revenues and await the outcome of the fire season before making any recommendations.

At the conclusion of the discussion on the issues related to the Act, time was provided for public testimony. Eric Feaver, representing MEA/MFTA, recommended using these funds for three categories: 1) K-12 flex fund; 2) relief for tuitions; and 3) state employee healthcare plan. Mary Caferro, representing WEEL, asked that the funding for family services, which was cut by the Fifty-eighth Legislature, be restored.

MOTION: Following discussion of possible actions by the LFC pertaining to the Governor's decision on the appropriation of these funds, **Senator Stonington** moved that the LFC request the opportunity to comment on the proposed plan prior to the Governor's action on it. **VOTE:** Motion carried unanimously.

Reconvene

Following the conclusion of the reports on the Act, the joint committees adjourned and the LFC reconvened with roll call at 1:30 p.m.

4. Approval of Minutes for November 19, 2002 and January 3, 2003 (Tape 3A-075)

Senator Tropila moved the minutes of the November 19, 2002, meeting be approved with the correction on page 2. He also moved the minutes of January 3, 2003 be approved as presented.

VOTE: The motion carried unanimously.

5. Committee Business (Tape 3A-082)

Election of Officers

Representative Lewis opened nominations for chair. **Senator Zook** nominated **Representative Forrester**. **MOTION:** **Senator Zook** moved nominations be closed and the ballots be cast.

VOTE: Motion carried unanimously. **Representative Forrester**, as newly elected chairman, presided over the remainder of the committee meeting and opened nominations for vice chair.

Senator Tropila nominated **Senator Bales** for vice chair. **MOTION:** **Senator Tropila** moved nominations be closed and the ballots be cast. **VOTE:** Motion carried unanimously. **MOTION:** The chairman opened nominations for secretary and **Senator Tropila** nominated **Representative Brueggeman**, then moved that nominations be closed and the ballots be cast. **VOTE:** Motion carried unanimously.

Welcome of New Members/Review of Committee rules/Procedure

Clayton Schenck welcomed new LFC members and then provided the members with copies of the committee rules and procedures (Exhibit 4). He outlined the types of issues which will be presented to the committee for consideration and/or action and stated these would be explained in more detail by Taryn Purdy.

6. Other Reports (Tape 3A-201)

The budget amendments and operating plan changes were presented by Taryn Purdy. (Exhibits 5 through 7) She informed the committee that no action was required as these reports were informational only with no issues identified by LFD staff. The required reports were included in the LFC notebook but were not formally presented. (Exhibit 8)

7. LFC Orientation (Tape 3A-300)

The Role/Authority of the Legislative Finance Committee

Taryn Purdy presented an orientation to and overview of the role/authority of the LFC. (Exhibit 9)

The Role/Authority of the Legislative Fiscal Analyst/Staff

Clayton Schenck presented an orientation on the role/authority of the Legislative Fiscal Analyst and the LFD staff. (Also included in Exhibit 9)

LFC as Oversight over Information Technology Management

Greg DeWitt, Senior Fiscal Analyst, provided a short background summary and a copy of the rules relating to the LFC's powers and duties as the oversight committee for the state's information technology (IT) management. (Exhibit 10) Brian Wolf, CIO, provided a

background summary and update status on the IT program over the last biennium and told the members he would present an updated statewide IT plan to the LFC next spring. He answered questions from committee members.

8. LFD Proposed Interim Work Plan (Tape 3B-119)

Clayton Schenck presented the LFD 2005 biennium proposed work plan. (Exhibit 11) Mr. Schenck recommended the LFC consider the following four in-depth interim studies “that would focus on a review of components of the Montana budget process, and seek ways to improve the way Montana crafts budgets and sets budget priorities.”

- o Agency Budgeting – Program Reviews/Evaluate Program Priorities
- o State Government Budget Model
- o State Budget Process – Analysis/Study
- o Examine Budgeting for Personal Services

Another proposed work plan item, Montana Economic Analysis Study, was submitted for consideration by the LFC. (Exhibit 12) This item will be discussed at the Board of Regents’ July 2003 meeting. There will be a panel discussion of the merits of the proposal and the panel will address the questions listed on the last page of Exhibit 12. Members of the LFC discussed this item and concluded they were not ready to commit the time and resources for this project until more information is available regarding the scope of the study. Clayton Schenck and Terry Johnson will be participants on the panel and will report back to the Management Advisory Committee (MAC) following that meeting.

MOTION: Following discussion of the various work plan items, **Representative Lindeen** moved the LFC approve the following recommendation.

Adopt the projects in the LFD work plan as presented with the change of prioritization of the big four interim studies, allowing discretion on the fifth work plan item, Montana Economic Analysis Study, based on the advice of the MAC relative to the outcome of the Board of Regents’ meeting in July 2003.

VOTE: Motion carried unanimously.

9. Committee Business (Tape 3B-335)

Mr. Schenck presented the items under committee business. (Exhibit 13) The committee took the following action.

Proposed Meeting Dates for the 2005 Biennium Interim

MOTION: Senator Zook moved approval of the next proposed LFC meeting date of October 3, 2003. **VOTE:** Motion carried unanimously.

Appointment of MAC

Representative Forrester appointed the following members to the MAC.

Senator Tropila
Senator Zook
Representative Lewis

As chairman, **Representative Forrester** will be the fourth member of the MAC.

LFD Operating Plan

Clayton Schenck explained a proposed change to the LFD operating plan for fiscal 2003.

MOTION: Senator Tropila moved that the proposed LFD operating plan change for fiscal 2003 of up to \$57,000 general fund as described in the LFA memo dated June 20, 2003 and as shown in the attached table be approved. It is directed that only the amount necessary to avoid a year-end deficit in personal services be transferred, up to a maximum of \$57,000. **VOTE:** Motion carried unanimously.

MOTION: Senator Tropila moved the LFC accept the LFD operating plan for the 2005 biennium. **VOTE:** Motion carried unanimously.

Next LFC Meeting

The next meeting of the LFC will be held October 3, 2003.

Adjournment

MOTION: **Senator Tropila** moved to adjourn. **VOTE:** Motion carried unanimously.

Meeting adjourned at 4:10 p.m.

Representative Gary Forrester, Chairman

Cindy Campbell, Committee Secretary

S:\Legislative_Fiscal_Division\LFD_Finance_Committee\LFC_Minutes\LFC_2003_Minutes\lfc_minutes_62003.doc

DRAFT